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**TO:** Mr. Mike Van Dusen  
House Foreign Affairs Committee  
House of Representatives  
Washington, D.C. 20515

Mike,  
  
From your briefing yesterday.



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## CYPRUS

DOMESTIC POLITICS

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Politics in Cyprus center on the ethnic hostility between the island's Greek and Turkish inhabitants. The internecine feud scuttled the initial federal arrangement set up at Independence in 1960, led to violence in the 1960s that resulted in the formation of the United Nations Force in Cyprus (UNFICYP), and brought on the Turkish invasion and occupation of approximately one third of the island in 1974. The island is now divided into the Republic of Cyprus--the Greek Cypriot south--and the "Turkish Republic of Northern Cyprus," recognized only by Turkey. Several UN-sponsored attempts to achieve a settlement have failed and the UN Secretary General is again working to rejuvenate the intercommunal dialogue. [REDACTED]

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- In February, the Greek Cypriots elected George Vassiliou president, succeeding Spyros Kyprianou, who had held the office since Archbishop Makarios' death in 1977. A wealthy businessman with no previous experience in politics, Vassiliou ran as an independent candidate--but with the official support of the large and well-organized Communist Party (AKEL) which his parents helped to found. Vassiliou placed AKEL associates in two minor cabinet posts, but otherwise has made no particular policy shifts that would indicate Communist influence.
- The President of Cyprus is the head of both state and government, and he traditionally directs Greek Cypriot policy on the central national issue: reunification of the divided island. Vassiliou announced prior to the election that he intended to jettison Kyprianou's hardline approach, which, among other things, had emphasized complete Turkish withdrawal before talks resumed. Vassiliou claimed that Kyprianou's intransigence only served Turkish Cypriot interests by forestalling negotiations and permitting the Turkish Cypriots to consolidate their hold in the north.
- The most important figure on the Turkish side is "President" Rauf Denktash. He is in firm control of the government--despite a constitution that gives the president only ceremonial powers--thanks to his powerful personality, noted political skills, and long history as leader of the Turkish Cypriot community. In contrast, the prime minister and cabinet--over whom Denktash has no constitutional authority--serve essentially as his subordinates.
- Although the constitution contains clauses mandating support for some sort of federation with the rest of Cyprus, the Turkish Cypriots have little motivation to pursue reunification because most see themselves as better off since the de-facto partition. If the Republic is to be reconstructed, the Turkish Cypriots would prefer a bizonal confederation that would grant them complete control over their internal affairs. In the meantime, the Denktash regime is seeking legal and political precedents to strengthen Turkish Cypriot sovereignty. Most recently, it imposed new regulations requiring non-diplomatic visitors from the south to have their passports stamped before entering Turkish Cypriot territory. [REDACTED]

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THE ECONOMY

President Vassiliou inherited a healthy Greek Cypriot economy that registered strong economic growth in 1987 and is well positioned for another good year. Led by a strong recovery in agricultural production, continued expansion of the tourism industry, and a revival in demand for Cypriot manufactured goods, real GDP grew by 7 percent last year, compared with 3 percent in 1986. At the same time, the surge in exports and tourism revenues earned Nicosia its first current account surplus--\$100 million--in 20 years. The Cypriot government is projecting real GDP growth of 4.5 percent this year, resulting mainly from increased domestic demand and further growth in exports and services. Inflation and unemployment are expected to remain below three percent.

- Rather than taking continued economic success for granted, however, Vassiliou quickly announced a package of reforms designed to increase investment, reduce the persistently high budget deficit, and take advantage of the customs union with the EC which came into effect this year. His plans include measures to simplify the legal and regulatory framework governing foreign investments, streamline the civil service, and establish a development bank, industrial research council, and export organization. Nicosia's goal is to turn the island into one of the region's principal business and trade centers.

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In comparison with the south, the Turkish Cypriot economy is far less developed and suffers from a dearth of managerial skills, the absence of international recognition, and a crushing inflation rate. Consequently, the Turkish Cypriots rely heavily on subsidies from Turkey--roughly \$50 million thus far in 1988--to keep the economy afloat.

- Ankara, which has its own economic problems, wants the Turkish Cypriots to be more self-sufficient. In particular, it is urging them to encourage private sector initiative by reducing subsidies to state-run enterprises and by changing tax incentives. Perhaps more important, Ankara in March 1988 pledged to guarantee all foreign investments in northern Cyprus.

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FOREIGN POLICY

Cyprus pursues a non-aligned but generally pro-Western foreign policy. The principal objective is to win international support for Nicosia's position on the Cyprus question, prevent recognition of the "Turkish Republic of Northern Cyprus," and make sure that the issue retains the world's attention. Cyprus seeks to avoid alienating potential supporters, no matter how radical.

- At the same time, Vassiliou has assured US officials that his government will continue to cooperate in curbing technology transfer and will not withdraw permission for the operation of a Foreign Broadcasting Information Service station on the island. Vassiliou has been equally reassuring about the presence of the British sovereign base territories in his talks with UK officials, including Prime Minister Thatcher. The Vassiliou government also has tightened restrictions on the island's

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large Middle Eastern community in the wake of recent terrorist incidents, and has increased cooperation with the United States on counterterrorism.

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The maintenance of Turkish support is vital to the north's survival and heads the list of Turkish Cypriot foreign policy goals. Ankara remains committed to Turkish Cypriot security, but almost certainly would like to see the Cyprus problem resolved in a manner acceptable to all parties--particularly since Turkish Prime Minister Ozal has made EC membership and improved relations with Greece cornerstones of his government's foreign policy. Denktash reportedly fears that Ankara will make concessions at Turkish Cypriot expense to accommodate Athens and the EC, and he has been working assiduously to make sure that this does not happen.

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## CYPRUS

POLITICAL FACTSHEETRepublic of Cyprus

The Republic of Cyprus gained its independence from Great Britain in 1960. Its authority currently covers approximately 60 percent of the island, in which the population is almost entirely Greek-speaking. Cyprus has a presidential form of government with a popularly elected chief executive who serves for five years and can be reelected. The parliament is unicameral, with elections held every five years. The December 1985 election yielded the following results:

Political PartiesSeats in Parliament

Progressive Party of the		
Working People (AKEL) Communist	15	24
Democrat Party (DEKO), Centrist	16	20
Democratic Rally (DESY), Center Right	19	26
EDEK (United Democratic Union		
of the Center), Socialist	6	10

Key Cabinet Members

President.....	George Vassiliou
Minister of Foreign Affairs.....	George Iacovou
Minister of Defense.....	Andreas Aloneftis
Minister of the Interior.....	Christodoulos Veniamin
Minister of Finance.....	George Syrimis
Minister of Commerce & Industry.....	Takis Nemitsas

"Turkish Republic of Norther Cyprus"

The northern 40 percent of the island, primarily the Turkish-speaking population, has been under a separate administration since 1975 when the "constitution" was ratified in a popular referendum. The president and the unicameral parliament are elected to seven-year terms. The 1985 election yielded the following result:

Political PartiesSeats in Parliament

National Unity Party (UDP)*		
conservative	25	37
Republican Turkish Party (CTP)		
marxist	12	21
Communal Liberation Party (TKP)		
leftist	9	16
New Dawn Party - Turkish		
settlers (YDP)	1	9
Independents	3	NA

\*In 1988, two independents joined the UBP in parliament.

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Key Cabinet Members

President..... Rauf Denktash  
Prime Minister..... Dervis Eroglu  
Minister Foreign Affairs & Defense..... Kenan Atakol

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## CYPRUS

ECONOMIC FACTSHEETRepublic of Cyprus

The Greek Cypriot economy has enjoyed steady growth in recent year thanks largely to a thriving tourism sector and a successful textile industry. Nicosia plans to build on this healthy base and take full advantage of the new customs union agreement between Cyprus and the EC.

Basic Data, 1987: Population--est. 0.56M    GDP--4.0B

<u>Key Indicators</u> (Annual Data)	1984	1985			
Real GDP Growth	7.5	3.5	3.0	7.0	4.5
Inflation Rate (Consumer Prices)	6.0	5.0	1.2	3.0	3.0
Unemployment Rate	4.0	4.0	3.5	2.9	2.9
Current Account (% of GDP)	-8.8	-6.7	--	2.8	2.6
Central Govt Spending (% of GDP)	30.6	29.4	29.8	NA	NA
Central Govt Budget Balance (% of GDP)	-5.6	-4.1	-4.2	NA	NA
Exchange Rate (Cyprus pounds) per US Dollar	1.70	1.64	1.94	2.08	2.20

Balance of Payments Data (\$Bil

Exports, fob	0.5	0.4	0.5	0.6	0.6
Imports, cif	1.4	1.3	1.3	1.5	1.5
Trade Balance	-0.9	-0.9	-0.9	-0.8	-0.9
Current Account Balance	-0.2	-0.2	negl.	0.1	0.1

Trading Partners (1986)

## Exports (%)

United Kingdom	23	United Kingdom	13
Lebanon	10	Italy	12
Saudi Arabia	6	West Germany	10
US	2	US	4
USSR	3	USSR	2

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"Turkish Republic of Northern Cyprus"

The Turkish Cypriot economy is closely linked with that of Turkey and is still very weak. Agriculture remains its mainstay, accounting for over 20 percent of GDP, 40 percent of employment, and 70 percent of export earnings. Citrus is the main crop. Statistical data is scarce and not always reliable.

<u>Population</u> --124,000 (est.) (1987)	<u>GDP</u> --206M (1983)	<u>Per C</u> \$1344 (1983)
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Trade Data (1984) (\$ Million)

Exports, fob	48
Imports, cif	\$170
Trade Balance	-122

Trading Partners (1984)

## Exports (%)

## Imports (%)

EC	61	Turkey	46
Turkey	22	EC	36
Arab Countries	16	Arab Countries	17

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